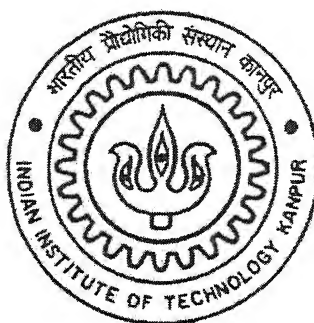


Strategy of Service Firms in India

by

Rajat Mahajan



DEPARTMENT OF INDUSTRIAL AND MANAGEMENT
ENGINEERING
INDIAN INSTITUTE OF TECHNOLOGY KANPUR
INDIA

June, 2005

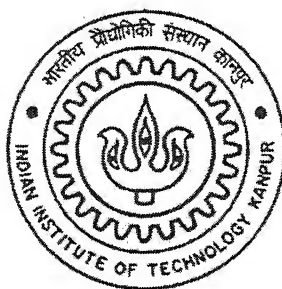
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*A Thesis Submitted in Partial Fulfilment of the
Requirements for the Degree of*

Master of Technology

by

Rajat Mahajan



to the

**DEPARTMENT OF INDUSTRIAL AND MANAGEMENT
ENGINEERING
INDIAN INSTITUTE OF TECHNOLOGY KANPUR
INDIA**

June, 2005

CERTIFICATE

This is to certify that the present work contained in the thesis titled “**Strategy of Service Firms in India**” has been carried out under my supervision by **Mr. Rajat Mahajan** (Roll No. Y3114011) in partial fulfillment of the requirements for the award of MTech, at IIT Kanpur and that this work has not been submitted elsewhere for a degree.

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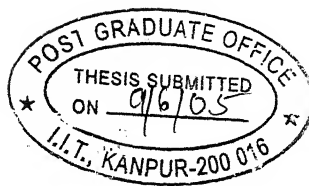
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(Rajat Mahajan)

Abstract

This study is an attempt to understand strategies in Indian services sector. The objectives of this study are (a) to determine broad aspects of business strategy of service firms, (b) different aspects stressed by service firms of different types, and (c) the functional level strategies followed by service firms. For first two questions, our framework is mainly an exploratory one. A set of propositions are derived from background literature for the third aspect. A questionnaire was designed and a survey of service firms was conducted using both paper as well as emailed copies of questionnaire. Based on data received from 28 business units, conclusions are derived. Some propositions on pricing and advertising strategy found support. Some differences have also been found in the marketing strategies of B2c and B2b firms. Our analysis further reveals that strategic orientations of service firms in India can be viewed along four themes: Profit orientation, Differentiation, Cost Leadership, and Growth through cooperation. Analyzing the various traits of the sample firms, we have also found that they can be grouped in four categories – Market & Strategy savvy, Technology oriented, Stuck in the Middle, and Struggling to strengthen.

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Chapter 1

Introduction

1.1 Introduction

This study is about strategies employed by Service sector enterprises in India. Very few attempts have been made so far to understand the strategic aspects of Indian service firms. This work attempts to address this gap, and is both exploratory and empirical in nature. In exploratory portion, a sketch of strategic thinking in Indian Service is experimented. Strategic researches in the area of service sector can be divided in two portions. One set of authors have studied the differences between services and manufacturing. This literature does not focus on strategic aspect of service business. Researchers studied the functions of manufacturing and service businesses like operation and marketing and in most of the cases focus was put on inherent (operating) characteristics of services. The theoretical analysis presented here for broad business strategies gives some insight regarding the nature of business strategy in Indian service firms. Also, we make an attempt to study some functional aspects of Indian service firms. Strategic issues for service marketing and operation are analyzed empirically to draw some conclusions regarding practices followed by Indian service firms.

The ever increasing competition and enormous growth prospects in the field of services have compelled managers to think strategically for services. The legacy mode of thinking service strategy in product terms can not be beneficial any more. Fresh and independent approach for making strategy is essential for the service situation. Most services are labour intensive, so, in spite of the evidence of technological advances, human factor in service businesses is still the most critical factor. Another critical aspect for services lies in diverse nature of services. Due to

processes, it is almost impossible to come up with a unified bulk of the services. That's why we made an attempt to classify the Indian services on the basis of seemingly similar strategic issues. From functional point of view, marketing remains the most important function. With the emergence of private players in all walks of service sector, companies are forced to come up with innovative way to market their services. The marketing strategies for services emerge due to unique characteristics of services which sets them apart from products. But with the diversity inherent in services, classification is the only method to gain strategic inside. We have used two broad categories for our empirical study, Business to business services and consumer services.

1.2 Industrial Environment in India

Indian business environment can be divided into two distinct periods, pre liberalizations (before, 1991) and post liberalization (after 1991). By the time it became a politically sovereign entity on August 15, 1947, it was left with no option other than adopting protectionist economic policies. Till the eighties, India's industrial policy created India's industrial base under a system of licensing, strict foreign exchange controls and excessive protection from imports, which protected even inefficient and internationally non-competitive enterprises. After 44 years of pursuing such policies, the economy finally liberalized and opened up in 1991.

Since then, there has been no looking back. Following a series of economic reform measures since 1991, India has responded positively to the dramatic changes that have been introduced over the last decade. Previously India was known primarily as an agricultural economy, but the face of the economy is changing rapidly. Some major and path breaking steps taken by government in 1990 such as removal of governmental control, rationalization of regulation, attracting Foreign Investment saw a paradigm shift in the face of Indian Economy. The major change Indian economy saw in new millennium is the rise of India as Knowledge based economy. Changing global scenario saw the emergence of India as world's major economic power. Globalization, outsourcing wave, IT

revolution, and, India's intellectual capital has transformed India into a service based Economy. The rise in the service sector's share in GDP marks a structural shift in the Indian economy and takes it closer to the fundamentals of a developed economy. The fact that the service sector now accounts for more than half the GDP probably marks a watershed in the evolution of the Indian economy. The service sector also accounts for 25 % of India's total work force. Service sector can be defined as portion of a nation's economy represented by services of all kinds, including those offered by public and nonprofit organizations. With the opening up of Indian markets for private players; an intense competition in the field of services is visible. Some well known service firms were forced to think ways to stem a reduction in their customer base. Issues like Cost cutting, efficiency, and, quality found their way into service managers' thinking process which were alien to them until then. Pressure to produce services conforming to international standards, come up with imaginative ways to attract, patronize and educate customer, and be cost efficient make "Service Strategies" even more important for many firms to survive and prosper.

1.3 What is meant by services?

Because of their diversity, services have traditionally been difficult to define. Complicating matters further is the fact that the way in which services are created and delivered to customers is often hard to grasp, because many inputs and outputs are intangible. Most people have little difficulty in defining manufacturing strategy, but defining service strategy eludes them. In their book, Service Marketing and Management, Lovelock and Wright, (1996) proposed two approaches that capture the essence.

- A) A service is an act or performance offered by one party to another. Although the process may be tied to a physical product, the performance is essentially intangible and does not normally result in ownership of the factor of production.

- B) Services are economic activities that create value and provide benefits for customers at specific times and places, as a result of bringing about a desired change in the recipient of services.

1.4 Organization of study

The rest of the thesis is organized as follows. The chapter two starts with the classification of available literature on service strategy. We have provided the fine points of background literature in this chapter.

In next chapter (3) we have dealt with the overview of service strategy. Strategic framework and hypothesis are being proposed in this chapter. This chapter prepares background for the analysis. We also elaborate the key concepts of service strategies in this chapter.

Chapter four is devoted to the pursuit and plan of the study. The methodology used for the study is elaborated. The questionnaire design, sampling frame and method of data collection are also discussed in same chapter.

Chapter five contains detailed analysis of our study. It has been divided into two parts. In first parts we have conceptual analysis of service business study has been carried out. In second parts key strategies aspects have been empirically analyzed.

We end our study with the conclusion drawn from the analysis and scope and recommendation for future study.

Chapter 2

Literature Review

The literature available for service strategy can be divided into two major portions. The first type of literature is conceptual in nature. Here, services are viewed mainly from operational point of view. This literature stresses on implementing, in services, those management techniques which are prevalent in manufacturing. Industrialisation of consumer services is the central point of this type of research. The pioneer attempt in this area is the bench mark paper “Production line approach to services” by Theodore Levitt (1972). Levitt proposed in this paper that if customer service is consciously treated like manufacturing, it will get the same kind of detailed attention that manufacturing does. It will be carefully planned, controlled, automated where possible, audited for quality control and regularly reviewed for performance improvement and customer reaction.

He further elaborated the concept in his second paper on industrialization of services (1976). Service can be industrialized in three ways, through hard, soft and hybrid technologies. Hard technologies are the most obvious - they substitute machinery, tools or other tangible artifacts for people intensive performance of service work. Soft technologies are essentially the substitution of organized preplanned systems for individual service operatives. Hybrid technologies combine hard equipment with carefully planned industrial systems to bring efficiency, order and speed to the service process.

Sasser (1976) proposed ways to manage demand. In this paper he investigated operational issues at functional level. He discussed two basic strategies in terms of how managers can alter demand and influence capacity in

service industries .Sasser et al also wrote on management of service operations (1978).

The first attempt to break free from product oriented approach was done by Dan Thomas (1978) in his paper “Strategy is different in service business”. Thomas described how managers can analyze their service companies and take advantage of strategies that are uniquely available to them. Importance of understanding the basic nature of the service is the key to successful strategy. He also stressed on the importance of classification of services, on the basis of whether it is people based or equipment based. This can be viewed as perhaps first pragmatic attempt to study service strategy at broad business level. This type of conceptual literature for service strategy is sparse. Some attempts were also made in designing strategies to identify customers. The issue was first addressed by Haskett, (1986) strategically. Davidow and Uttal(1989) discussed the need of strategic planning in service industries. It is supposed that without strategy, companies can mis-identify their customers. In recent past there are more such attempts, though confines to specific service sectors.

Another stream of work in conceptual literature deals with the issues that arise from ‘inherent characteristics’ of services. In this type of literature services are explored from the perspective mainly of service marketing. The first significant attempt in this direction was made by Regan(1963) and Rathmell(1966). Regan(1963) stressed on *inseparability* of production and consumption. By making distinctions from marketing of goods, Rathmell (1963) documented 13 market characteristics unique to services. *Intangibility* of services was the fundamental difference universally accepted by the authors (Rathmell, 1963, Bateson, 1977 and Berry, 1980). Intangibility according to Bateson (1979) was the fundamental difference from which all other differences emerge. Other prominent characteristics universally cited in the literature are *perishability* and *heterogeneity* (Ratmell, 1966, Berry, 1980 and Bell1981). The variability in performance (heterogeneity) was well documented by Legerand et al, (1981). They stressed on the fact that many individual employees may be in contact with a single customer, giving rise to inconsistency of behaviour. Kinsley (1981) stressed on the fact that performance can differ for same individual. Literature suggests that each unique characteristic poses different problems to service marketers and

requires different strategies to cope with it. Specific problems arising from these characteristics and strategies to cope up with them have been suggested in this literature. Some of these are discussed later at appropriate places in this write-up.

Another important aspect from the point of view of marketing is the classification of services. Services are very diverse. This diversity of service sector makes it difficult to come up with managerially useful generalizations of service marketing (Lovelock, 1983). Lovelock emphasizes the need of classification of services to gain strategic insight and managerial utility. In the past several attempts were made for the classification of services. Judd attempted a classification by the extent of “goods–orientation” in services. He classified the services into three categories: rented goods services, owned goods services, and non-good services. The scheme was unsophisticated and non-exhaustive. Rathmell (1974) classified services on the basis of different type of buyers, sellers, buying motives and buying practices. But the scheme was not specific to service and equally well applicable for goods. Thomos (1978) came up with a useful classification of services. He classified services in two broad categories: Equipment based and People based. Chase (1978) defined services on the basis of degree of customer contact.

Kotler(1980) came up with another classification , which is based on the types of orientation. The criteria traditionally used to classify organizations as manufacturing and service offers little utility to managers in planning and controlling operations. The identification of similarities that allow implementation of proven management techniques is critically important regardless of organizational classification.

Lovelock (1983) came up with a new scheme of classifying services. Managerial insight and strategic implementation are the underlying features of this classification. The classification has given the basis for substantial research in the field of service marketing. He classified services through five broad features -- relationship with customers, customization and judgment in service delivery, mode of service delivery, and nature of demand and supply. To understanding the implications of marketing variables, we have used classification schemes as warranted by situation.

As far as Empirical studies are concerned, we have some literature available in field of service marketing. Zeithmal et el (1985) serves as benchmark text in the area of service marketing. The concrete decision areas in the field of service marketing attract many researchers. Pricing (Kurtz and Clow, 1998; Langeard, 2000), advertising(Berry 1985 ,Turley and Kelly,1997), consumer promotion(Lovelock 1983), and service recovery(Durvasala et el ,2000) are the source of some widely discussed aspects of service marketing.

Chapter 3

Strategic Service Concepts and

Hypothesis

As pointed out earlier, strategic decisions related to services can be divided into two parts. First, there are issues related to broad level service strategy that determine the path taken by service business in the long run. Besides, there are functional level strategies, and decisions related to that. Strategic decisions about marketing, operations, and human resource, that decide the future course of a service business, can be classified here. Following is a description of key strategic concepts out of the wide array of decision variables.

3.1 Service Business strategy

Business strategy focuses on improving the competitive position of products and services of a business unit within the specific market the unit serves (Hunger,2001). Through the concept of “Generic Strategies”, Porter (1980) provided the main framework for competitive strategy. He proposed three generic strategies of cost leadership, differentiation and focus. Cost leadership is the ability to provide services more efficiently than its competitors. This is also called low-cost strategy. Differentiation is the ability to provide services which are perceived as unique. And focus strategy is built around the idea of serving a particular target market.

Key decision areas with strategic importance in service business can be the following.

look at three separate aspects where technology is relevant (Heskett et al.1990), namely:

- (1) Material technology, such as new chemical compounds;
- (2) Methods technology, such as new machines and ways of working; and
- (3) Information technology (IT) including computer hardware, software, cellular telephones, scanners, etc.

From a strategic perspective, the main reason for using technology is to make service operations more feasible and profitable. This is largely achieved by streamlining and reorganizing back-office functions (Mathe and Dagi, 1996). Even in the front line, new technology can provide more information more quickly to promote better customer service. Quinn and Paquette (1990) have proposed unique organizational structure by using technology in services.

3.1.5 Developing new services

The entire process of developing new services deals with concept rather than physical objects. The testing process is very complex in services. It is often difficult to do test marketing or marketing research for new services. Customer has to be enticed to experience new services. Thus cost of introducing new services may be very high as it is difficult to predict the service concept will be attractive to customer or not. However, in case of B2B services this can work to the advantage of service provider. In people based services it is possible to change the concept even if it has been introduced in market without incurring much cost.

3.1.6 Market share

A large market share is thought to be useful because of economies of scale and because of dominant competitive position that may follow. But as economies of scale are hard to come by in services, it may not be very advisable to go for large market share. Studies also reveal that there is no clear relationship between market share and profit (Porter,1980). This is even more true in case of service (Schwalbkch,1991).

3.1.7 Life cycle

Consumer goods manufacturers use the concept of life cycle to build a product portfolio. Balancing different products by the different stages of lifecycle may however be less useful for services. Most services are keenly committed to the core services and do not have flexibility to combining different services from same category. Portfolio is normally very small one (Carman and Langeard, 1980).

3.1.8 Standardisation

Standardization implies a non-varying sequential process in service offering, in which each step is laid out in order and all outcomes are uniform. Levitt (1972) suggests that the standardization of a service can take three forms:

- (1) Substitution of technology for personal contact and human effort;
- (2) Improvement in work methods; and
- (3) Combinations of these two methods.

3.1.9 Mass-customization

A particular service can seldom be judged as standardized or customized. It may contain both characteristics, and even the proportion of each may vary from time to time or by customer segment. There are opportunities for a great variety of customizations even though they are based on standardisation with the use of high-tech. In accomplishing this, enterprises generally obtain a strategic advantage not through traditional economies of scale, but through focusing on the smallest activity or resource units that can be efficiently measured and replicated. Sometimes operational and cost-based reasons underlie the solution to transform a high-touch service into a low-touch one provided that customers will be offered greater convenience. Mass customization can be defined as offering a service with

some individualized product elements to a large no of customers at relatively low price (Lovelock, 1985).

3.1.10 Channeling

A distribution channel is viewed as the sequence of firms involved in moving a product from the producer to user. Many service market writers generalize that direct sale is the only possible distribution channel. Services are intangible, and cannot be stored, transported or inventoried; they cannot therefore be separated from the person of the seller, they must be produced and consumed simultaneously. However, in some services where direct contact may not be necessary and tangible representation of services is possible (e.g. banking), a channel of distribution is also possible (Donnelly, 1976). Some functions may also be identified which an intermediary can perform. Such, for example, may be the case with “getting advertisement from outside agencies”.

3.1.11 Service quality

For services, the assessment of quality is made during the service delivery process, which usually takes place with an encounter between a customer and service delivery process. Customer satisfaction with the service quality can be defined by comparing perceptions of services received with expectations of service desired (Parsuramn, Zeithmal and Berry, 1985). To a large extent, firms can assure quality in high contact services by training employees for moment of truth i.e. the moment when the perception of service quality is formed in customer’s mind (Bitran and Hoach, 1990).

3.1.12 Growth through acquisition

What is bought when services are acquired is depends upon the type of service business. Managers are more comfortable with acquiring equipment based services. Because physical assets can be easily valued. When acquiring people

based organization, it is more risky, as people and their skills are being purchased (Thomas, 1978).

3.1.13 Outsourcing

In today's knowledge and service-based economy, companies have more opportunities to increase profits through strategic outsourcing. It has been suggested that one should build competency around core service skills and outsource less important segment of value chain to derive specific advantages (Quinn et al, 1990). With the rise of process outsourcing the scenario may be further changing. It may depend also on the degree of customer contact. With the rise of IT, outsourcing is visible in services like education and healthcare as well. With outsourcing, it is no longer a company's ownership of capabilities, but rather its ability to control and make the most of the critical capabilities, that matters.

3.2 Service Marketing

The strategic issues in service marketing are different from the marketing of goods. The rationale of separate treatment for services stems from existence of the unique inherent characteristics of services (Zeithmal et al, 1985). The following four characteristics are widely accepted as unique to services.

Intangibility

Because services are performances, they can not be felt, touched, or seen like goods. Although some services include tangible elements- such as an airline seats, eating a meal, or getting something repaired-the service performance itself is basically intangible. Due to this, customer usually derives values from services without obtaining permanent ownership of any tangible elements.

Heterogeneity

Heterogeneity concerns the potential for high variability in the performance of services. Variety in the features of the person being served, and the presence of personnel and other customers in service system makes it difficult to standardize and control variability in the service system, both input and output.

Inseparability

It means simultaneous production and consumption of services. Whereas goods are first produced, sold and then consumed, services may be first sold, and then produced and consumed simultaneously. Most services require consumer to present during service performance. This makes distribution and retailing of the services almost impossible in conventional terms.

Perishability

Services are deeds or performances; it is perishable and cannot be inventoried. This poses great degree of difficulty for the service managers in controlling demand and supply. The unused capacity is lost forever and if demand exceeds capacity, it is loss of potential opportunity.

Most of the problems in the area of service marketing can be attributed to these unique characteristics of services. We are discussing strategic issues related to market and postulating hypotheses alongside for drawing empirical conclusion.

3.2.1 Pricing

The empirical research that has been conducted on the field of pricing is very limited, while this is even more evident in the case of services. However, the distinctive characteristics of services (intangibility, heterogeneity, perishability and inseparability) necessitate a closer look at the way at which services are priced (Zeithaml and Bitner, 1996; Kurtz and Clow, 1998). Pricing of services is different from the pricing of goods. The fundamental difference lies in the intangible nature of services. As services are performances, and, most of them are devoid of any tangible product elements (Lovelock 1981, and, Bateson 1977). The intangible nature of services makes it difficult to set the price of services. As consumer don't get ownership of services and without any tangible component, it is hard to compare and evaluate services as compared to goods..

There are three main methods to set the price of services -- cost based, competition based and demand based. Avlonitis and Indounas (2001) show in their study that pricing methods, which are adopted by the majority of the companies, refer to the traditional cost-plus method and the pricing according to

the market's average prices. Thus, we have included three main pricing strategies for the purpose of our study.

1. Cost base pricing: Pricing on the basis of what it costs to the company
2. Competition base: Pricing according to competitor
3. Pricing to skim the market

Hypothesis: As in the case of the pricing of services, the empirical research, which has been conducted on the pricing methods of services, is limited. A common finding of the few studies conducted is the dominance of the cost-based methods mainly due to its simplicity and easiness to use. More specifically, Schlissel (1977) found that 24 out of 43 pest control companies (56 percent) in the USA followed the cost-plus method. Similarly, Goetz (1985) investigating the pricing methods of 56 dry-cleaning services in the USA reached the conclusion that 36 companies in his sample (65 percent) adopted this method. Also, Zeithmal, Parsuramn, and, Berry, (1985), in their study of the pricing behavior of 323 service companies in 13 different sectors in the USA, found that the 63 percent of these companies had adopted the cost-based method. Hence,

H1: Service firms are likely to use cost based methods for the purpose of pricing.

3.2.2 Advertising

Service researchers have long identified that services have different advertisement needs than more tangible products.(George and Berry,1981, Zenithal 1981).Special characteristics of service forces one to adopt different advertising strategies for service firms. The fundamental difference universally cited by the authors (Lovelock, 1981, Berry, 1980) is intangibility. As services are performances, they can not be seen or felt like goods. The intangibility of services undoubtedly adds to difficulty in creating a distinct image. The use of word of mouth is an important and well documented strategy for overcoming problems faced by intangibility (George and Berry, 1980).

While several studies have investigated difference between goods and service advertising, few have acknowledged that different strategies of advertising are

needed for different types of service firms (Zeithmal, Parsuramn, and, Berry, 1985).

3.2.2.1 Word of mouth

The labor intensiveness of many services introduces variability in the degree of service provided which is not present when equipment dominates the situation. The variability can be attributed to the different level of skills, personalities or attitude of the people who are providing the services (George and Berry, 1980). In such situation word of mouth assumes significant role. The importance of word of mouth communications in many service markets suggests the opportunity to use advertising to capitalize on this propensity. A conscious effort should be made for leveraging word of mouth into advertising or other promotional activities, such as to make specific efforts for persuading satisfied customers to let other people know about their experiences., develop communication material for consumers to be made available to non consumer or target advertisement to opinion leaders.

Hypotheses:

On the basis of above discussion we can develop following hypotheses.

3.2.2.2 Effect of intangibility

Services are invariably performances. Whereas goods can be made physically distinctive on the basis of design, packaging, and branding, services have no physical appearances. (Berry, 1980). Crude visual media like TV which have advantages of sound, image, motion and sight benefits along with demonstration may not be as important advertisement media for services due to their intangibility (Zeithmal, Parsuramn, and, Berry, 1985). Thus,

H 2: Non-Visual media are likely to be more important in the context of service advertisement.

3.2.2.3 Consumer vs. Business to Business Services

Advertisement may not be as important for firms with institutional customers, as their consumer base is characterized by rational buying process, long term relationship and customized service mix specific to consumers. (Coopers and Jackson, 1988, Turley and Kelley, 1997).

H 3 a: The extent of use of advertisement is likely to be higher in case of consumer services.

With limited consumer base, the use of consumer media such as news paper and television is limited in case of B2B services (Zeithmal, Parsuramn, and, Berry, 1985). Thus,

H 3 b: Advertisement in consumer media is likely to be more popular with B2C services.

3.2.3 Selling Practices

The main difference between selling of goods and services emerges from inseparability of production and consumption process of services. Services are first sold, then produced and consumed simultaneously (Regan, 1963). In the services, producer and consumer are single entity (Upah, 1980). In most of the cases, only direct distribution is possible. Personal selling can be defined as two-way communications between service employees and customers designed to directly influence the service process (Lovelock, 1999). As for other practices like retailing of services, there seems to be many hurdles such as; services can not be protected through patents, warranty claims are not applicable, lack of sampling, and, lack of demonstration (Robert C. Judd, 1968), which makes retailing of services difficult. Although there is a surge in e-commerce for consumer services (Kathy Hamnond, 2001), still due to limited access and penetration of internet in India (Sinha, 2004), it can not be adopted as dominant strategy. Hence,

H 4: Personal selling is the dominant strategy for selling services.

In service marketing, the role of intermediaries is reduced significantly as compared to goods marketing. The absence of intermediaries makes the role of

customer contact personnel much more important (Lovelock and Quelch, 1983).Zeithmal et al (1985) showed that firms take great care in choosing their customer contact personnel and training them in customer handling.

3.2.4 Service Promotions

Promotions are short term incentives offered to customers and intermediaries to stimulate product purchase. Offering promotions, especially gifts, provides not only competitive edge, but also a way to distinguish one's service. (Lovelock and Quelch, 1983).But as service is invariably the performance, its intangible nature makes it hard to use promotions like sampling or demonstrations (Robert C. Judd, 1968).The perishable nature of services also gives a further incentive to use promotion offers. As services can not be inventoried and unused capacity lost forever, service managers use promotion offers for smoothening of demand. Service marketers usually prefer to offer price discounts or bundling rather than give away the services (Lovelock).On the above discussion we can propose a hypothesis on promotion practices

H 5: Price discount is likely to be more popular in the context of service promotion.

3.2.5 Customer loyalty

Loyalty is customer's willingness to continue to patronize a service over an extended period of time. The economic benefits of high customer loyalty are considerable and, in many industries, explain the differences in profitability among competitors. When a company consistently delivers superior value and wins customer loyalty, market share and revenues go up, and the cost of acquiring and serving customers goes down. In manufacturing as well as services, business leaders intuitively know that when customer loyalty goes up, profits do too. (Frederick Reichheld,1973).

Hypothesis: On the basis of above discussion we can build a proposition.

H6: Service firms put importance on building a loyal customer base.

3.3 Service operations

Service operations can be defined as part of the total service system where inputs are processed and the elements of service product are created. Due to inherent nature of service processes it is not possible to draw a clear line between operational and marketing issues. However, for our study we are describing service system design for service process.

3.3.1 Service System Design

Service package can be defined as a bundle of attributes that a customer experiences. This bundle consists of four features: supporting facility, facilitating goods, explicit service, and, implicit service. In a well designed service process system, all of these features are harmoniously coordinated to give the desired service package.

Generic approaches to service system design: At one extreme, we can deliver services by way of production –line approach. This approach was well documented by Levitt (1972). With this approach, routine services are provided in a controlled environment to ensure consistent quality and efficiency of operation. Another approach for service system design is to encourage active customer participation in the process. An intermediate approach divides a service into high and low customer contact operations. This allows the low contact operations to be designed as the technical core, isolated from customer. For example, banks isolate their check-processing operation, use self serve ATMs, and provide personalized loan services. We are here describing production line approach to service system design. Other two approaches can be symbolized on the basis of these approaches.

We sometimes tend to see service as something personal, performed by individual directly for other individuals. This humanistic perception can impede innovative service design. Manufacturing systems are designed with control of process in mind. The output is often machine paced. Jobs are performed with specific task to perform. A service taking production line approach could gain a competitive advantage with a cost leadership strategy. There are several features of this approach that contribute to its success.

3.3.2 Production line approach

We tend to see service something as personal: it is performed by individual directly for other individuals. This humanistic perception can be overly constraining and can therefore, impede innovative service design. Manufacturing systems are designed with control of process in mind. The output is often machine paced. Jobs are performed with specific task in perform. A service taking production line approach could gain a competitive advantage with a cost leadership strategy. There are several features of this approach that contribute to its success.

3.3.2.1 Limited discretionary actions of personnel

A worker on assembly line is given well defined tasks to perform, along with tools to accomplish them. This brings uniformity in output. Standardisation and quality (conforming to specification) are hallmarks of this approach. For standardized routine services, consistency in service performance would be valued by the customers. The customer can expect identical service at any location at any given point of time.

3.3.2.2 Division of labor

The production line approach suggests that total job can be broken down into groups of tasks. Task grouping permits specialization of labour skills. Furthermore, division of labour allows one to pay only for the skills required to perform the task.

3.3.2.3 Substitution of technology for people

Levitt(1976) suggested way of industrialization of services by using technology. He proposed that hard technology should not be the only source of industrialization of services. Using soft technology or hybrid technology as well, one can bring Standardisation in services.

3.3.2.4 Service Standardisation

Limiting the service option creates opportunities for predictability and preplanning. The service becomes a routine process with well defined and orderly flow of customers. Standardisation also helps provide uniformity in service quality because the process is easier to control.

3.3.2.5 Customer participation

The customers are mostly present in the system when services are being performed .Instead of being a passive bystander; the customer represents productive labour just at the moment it is needed. Opportunities exist for increasing productivity by shifting some of the service activities onto the customer. For example self service in leading food chains.

3.3.2.6 Separation of low and high contact operation

When service systems are decoupled into high and low contact operations, each area can be designed separately to achieve improved performance.

3.4 Managing fluctuations in demand

The inherent variability of demand creates a challenge for managers trying to make the best use of service capacity. The problem can be approached from many perspectives. One strategy focuses on smoothing the demand, which permits fuller utilization of a fixed service capacity. Various alternatives for managing demand are available, such as partitioning demand, offering price incentives, promoting off-peak use, and developing complementary services and reservation systems.

Another strategy considers the problem from the supply side. Many alternatives have been proposed to adjust service capacity to match demand. Elaborate procedures for work shift scheduling have been developed to adjust

capacity to demand. When possible, part-time employees can be used to create variable capacity. Increasing consumer participation in the service process shifts some of the service tasks to the consumer and reduces part of the burden during peak-demand periods. Other possibilities include sharing capacity with others, as airlines do by leasing their aircraft during off-season periods. Occasionally, capacity can be adjusted—for example, by opening and closing dining areas in a restaurant. Cross-training employees can also provide flexible capacity by enabling employees to assist one another during busy periods.

The strategies are presented as two separate views of the problem, one from the demand side and the other from the supply side. Of course, this should not preclude the use of mixed strategies that attempt to mediate the problem from both perspectives. Yield management as practiced by some Airlines is such a mixed strategy, because the company integrates supply and demand management using the power of information contained in its computer reservation system. The result is the real-time ability to sell a class of service to the right customer at the appropriate time, and at the most competitive price.

Managing waiting lines and queues: An understanding of the queuing phenomenon is necessary before creative approaches to the management of service systems can be considered. Behavioral implications of queuing reveal that perception of waiting is often more important than the actual delay. To counter this, keeping waiting customers occupied and comfortable are advised. Waiting also has economic implication for both the service firm and its customers. Sometimes preferred customers are given override and normal customers are allowed to wait.

3.5 Human resource management

: Human resource management (HRM) strategy attempts to find the best possible fit between people and the organization. Human resource development (HRD) means competence building, commitment building, and culture building. HRD outcomes can influence an organization's business goals of higher productivity, cost reduction, more profit, better image, and more satisfied customers and stakeholders (Rao, 1999). These outcomes require high-level

competencies in the employees (technological, managerial, human relations, and conceptual), effective utilization of people through well-developed roles, high work commitment, work motivation, and teamwork. Competencies may have a significant impact on the effective management of human capital that contributes to the achievement of business goals (Huseiid. et al.. 1997; Rao, 1999). Continuous training, empowerment, and teamwork facilitate employee development. The issues central to human resource planning in service industries are discussed below:

3.5.1 Manpower planning:

It addresses the issue of whether a company or business unit should hire a large number of low skilled employees who receive low pay, perform repetitive jobs, and most likely quit after a short time or hire skilled employees who receives relatively high pay and are cross trained to participate in self managed work team.

3.5.1.1 Building a Talented Workforce

To build a customer-oriented service-minded work force, Zeithaml and Bitner (2000) have presented human resource management strategies organized around the following four basic themes:

- 1) Attract the right people: To attract and hire people with positive attitudes, an organization needs to identify who the best people are and compete with other organizations to hire them. Berry and Parasuraman (1991) refer to this as "competing for talent market share." Firms act like marketers in their pursuit of the best employees, just as firms use their marketing expertise to compete for customers.
- 2) Develop people: Employees development can be facilitated by training, empowerment and team building.
- 3} Provide relevant support systems: Support systems, such as appropriate technology and equipment and service-oriented internal processes, are essential lo the delivery of quality services.
- 4) Retain the best people: Hiring good people is hard but retaining them is even harder. Employee turnover and customer satisfaction are directly correlated.

(Schlesinger & Heskett. 1991). Turnover of excellent service employees can be detrimental to customer satisfaction, employee morale, and overall service quality (Zeithaml & Bitner, 2000).

3.5.1.2 Rise of temporary jobs

To reduce costs and increasing job flexibility the companies are increasing the number of part time and temporary employees. The concept of temporary workers is not new in service industry, but it was confined to small, city centric units. But now in companies of national footprint, the practice of temp is on the rise. To meet short term requirements or need of very specialized skills warrants the use of temporary workers. Temporary labor come very handy in performing tasks like customer care, sales, helpdesk, data entry etc. This also allows companies to test employees before they are hired permanently. Technology is also making job easier and companies prefer temporary workers. However, this practice in India is still in very nascent stages, with just 50,000 of such employees are making up the organized work force (Business world, Jan 2005)

3.5.2 Employee discretion and control structure

The issue of managerial control is one of the major challenges faced by service marketing manager. Managerial control could prove challenging for service managers as the resources contributed by employees during the service encounter are intangible and can not be controlled in same fashion as tangible resource (Zeithaml et al, 1988). Services marketing managers have begun to recognize that services can be enhanced by allowing employees to exercise discretion during service delivery. One of the key strategic decisions service managers must make concerns the level of standardization (or customization) inherent in the service product provided by the organization (Lovelock, 1983). The exercise of discretion is particularly relevant to this strategic decision, as the level of standardization and customization inherent in a service product is highly dependent on the discretion exercised by service personnel (Shostack, 1987). Customized services generally result from service delivery processes allowing more discretion on the part of service providers.

The discretion can be of three types as proposed by Kelley (1993).

1. Routine discretion: In the case of routine discretion employees may select an appropriate means for performing a task based on training, past experience, external search activities, or guidelines provide by the organization.
2. Creative discretion: Creative discretion is exercised when a service employee is provided with a goal or task, but is not offered a means for accomplishing that goal or task.
3. Deviant discretion: The exercise of deviant discretion arises either when employees exercise discretion but have not been empowered to do so, or when employees have utilized inappropriate decision criteria.

3.5.3 Selection of customer contact personnel

Many service firms are subject to failures in service delivery because they must depend on customer-contact employees to deliver service to their customers. Because the delivery of service occurs during the interaction between contact employees and customers (the service encounter), the attitudes and behaviors of contact employees can influence customers' perceptions of the service (Bowen and Schneider 1985). Because of the importance of the service encounter, service firms must find ways to effectively manage their customer-contact employees to help ensure that their attitudes and behaviors are conducive to the delivery of quality service. The literature on service marketing examines the employee management process from one of three perspectives: the manager-employee interface, the employee-role interface, and the employee-customer interface. . In one of the first studies to address service employee management, Bowen and Schneider (1985) argue that traditional managerial functions should be altered because of the unique characteristics of services. Their recommendations include involving employees in the planning and organizing of service activities, recognizing that the work environment of service employees and understanding that the firm's human resource practices can ultimately influence customers' service experiences.

Chapter 4

Pursuit and Plan of Study

Initially, a set of research questions were generated for this work.. The nature and content of these questions were broad and related to Indian service industry in general. As stated earlier, the literature on service strategy is limited and lacks empirical content. So, we decided to 'explore' a broad study of strategies in Indian service firm. At the level of functional strategy, there is some available background, which helped us to structure this part.

Following were the 'initial' research question of the study:

- A) What is the comparative picture of broad business strategy followed by Indian service firms?
- B) Are there any remarkable differences in service strategies of firms operating in different sector?
- C) What are the specific aspects of Indian service firms at broad business level?
- D) What are the strategies to cope up with the problems arising due to distinct characteristics of services?
- E) At functional level, what is the difference between strategies adopted by service and those of by manufacturing firms in India?
- F) Are Indian service managers following reactive strategies or no strategies at all?

After more literature survey and discussion, the above questions were analyzed for their relevance and 'researchability' and were screened accordingly. Also, due to limited time frame it was not possible to explore all the questions. For the purpose of present study the following objectives were set forth:

- A) To determine the broad aspects of business strategy of Indian service firms.
- B) To determine the different aspects stressed by different types of service firms in India.
- C) To evaluate the functional level strategies and linkage between them.

For first two questions, we worked on an exploratory framework, and for last question we came up with some propositions on the basis of background literature. The underlying assumption of our study is that the *firms are likely to have different strategies*. This assumption has been supported by both conceptual (Porter 1980) and empirical (Dess & Davis, 1984) studies. It has been empirically seen that service firms can be classified in strategic groups (Dess & Davis, 1984). By contrast, firms which fail to have a strategic group membership are said to be 'stuck in the middle' (Porter, 1980).

The nature of this investigation calls for a survey oriented research methodology. The measures for intended strategies required a multivariate research tool which has a general applicability. Keeping these in a mind a mailed questionnaire based survey of Indian service industry was thought of. Design of this survey, the description of selected sample etc are given in the following sections.

4.1 Questionnaire Design:

The questionnaire was designed to collect data on relevant strategic aspects of a firm. It consists of 4 sections (Appendix-A). The first section is about broad level business strategy of firms. This section aimed at own evaluation of firm's ***Business Strategy***. The items included in this section give various choices which may describe the strategic direction taken by the Business. The items included in the section can be categorized as competitive, growth strategy, product strategy and linking/networking strategies. Competitive strategies can be defined as the set of practices that create a defensible position in industry so that a firm can outperform competitors. The items included in this subsection are Porter's generic strategies, strategic use of innovation and proprietary technology, investing in building strong organizational image. The items of growth strategy relate to market share building, life cycle, and creating new services. The issues

covered in the product strategy are service variety, choice of market at the time of entering. In the linking/networking strategies co-operative strategies were covered. Channeling and outsourcing were also covered in that subsection. Each of the 19 strategic variables was scored by the respondent enterprise on a 5 point likert scale (1 very low to 5 very high) according to the emphasis that the firm attaches to that strategic variable.

Section-2 of the questionnaire covers issues related to **Service Marketing**. Due to simultaneous production and consumption in most of the services, operational issues are embedded with the marketing issues. Service delivery, for example, has found its way into literature related to service marketing, depending upon the angle of investigation. For this study, we have conformed to literature, and included service delivery in service marketing section. Other conventional market issues included in this section are advertising, pricing, customer relationship and selling practices. Our intention here was to assess the general 'policy' regarding these marketing practices, a strategic issue. Again we used 5 point likert scale to measure the importance attached by company to different aspects.

Section-3 of this questionnaire concerns **Service Operation and Design**. This section has been divided into two subsections. In first part we cover issues related to service system design. This is based almost entirely on the pioneering work of Theodore Levitt (1963, 1972). Many of the issues refer to the "production line" approach to services (Levitt, 1972). Aspects like extent of customer contact, extent of discretion, standardization etcetera are included. We have designed this subsection mainly for B2C services; they may not be too relevant to B2B services.

In the next subsection we elicit responses about how the organization manages fluctuation in demand. As shown by Zeithmal et al (1985) that demand fluctuation is the area which remains most challenging area for service manager. We deal with different issues like managing high demand, low demand and waiting line management. Most of this is less prominent or even nonexistent in case of B2b services.

Section -4 of the questionnaire is concerned with **Human Resource**. It consists of four types of items. There are, firstly, issues related to Manpower Planning, like the nature of workforce. Then, there is the question of Training the employees. There is also the control structure of the firm, its mode of management and flow of authority. Finally, we elicit the extent to which the organization uses different Motivational tools. The main aspects covered here are profit sharing, job security, situation of work place and financial incentives.

4.2 Data Acquisition:

The questionnaire was posted to 200 service firms in India. The selection of firms was made from online Yellow-pages, and other databases. As our sampling frame is mainly online, we sent an email reminder one week after posting the 'snail' mails. Also many of respondents seeking online version of same, we send e-mails to 100 companies additional to previous list. Given the fact that the services sector includes a vast number of sub-sectors, it is almost impossible to investigate all the existing sectors. Within this context, it was felt appropriate to focus the current research on those sectors that may be considered as being significant on sales volume and the number of employees that they employ. The companies whom we sent the questionnaire included those in the field of Banking , Insurance, Management consultants, general finance, luxury hotels, security and detective services , resorts, transportation ,placement consultant, shipping companies and airlines. These sections also represent a cross-section of both business-to-business (transportation and shipping companies and consultants) and business-to-consumer services (banks, insurance companies, airline companies and medical services).The questionnaires were mailed either to CEO or managing director of the company. The chief executive is of course most important in strategy formulation (Chandler AD, 1962).The questionnaire was attached with a covering letter assuring confidentiality of data and anonymity of the respondent. It was also requested that the questionnaire should be filled by CEO/top management only citing the nature of this type of survey.

Prior to actual posting of this questionnaire, a limited field trial of the same was conducted among a manager of a local firm and two academics with exposure to service industry in order to increase its validity.

Due to very poor response rate, the researcher followed up personally by visiting the locations. Besides the higher response rates, this also led to completion of every particular question and in the right order, the ability of the interviewer to explain unambiguous questions to the respondents along with the ability to ensuring the respondents' eligibility to the survey.

The response rate from industry was around 10 %.A total of 31 responses were received. Three of them were screened out due to being incomplete. This survey size , though regrettable, is not uncommon in the study of strategy (Porter, 1979). Extensive multivariate analyses have also have been carried out on similar samples in literature (Dess & Davis,1984).

Chapter 5

Result and Analysis

5.1 Sample and respondent profile

The analysis done here is based on responses received from 28 firms in the services sector. Most responses are based on specific business units rather than entire company.

To start with, let us recognize that this small set of firms can hardly be considered as representative of the Indian services sector. Due to the heterogeneity of the sector, in terms of sizes, product profiles, ownership, and technology, it may even be impractical to aim at such a 'representative sample'. Within the limitations of this 'sample', following are its key characteristics.

The analysis done here is based on 28 respondents that were received from various service firms. Most of the respondents based their data on their business unit rather than on entire company.

This sample of Indian firms can hardly be considered as representative. It is perhaps conceptually and pragmatically infeasible for us to aim at such a data set for representation. For the purpose of present study we have divided the sample set into two categories B2B and B2c services. In all we have received 28 samples, which were equally distributed over these two categories i.e. 14 apiece in b2b and b2c. The sector which break up of companies is given below.

| | |
|------------------------|----|
| Total No of Firms | 28 |
| Business to consumer | 14 |
| Banking And finance | 8 |
| Insurance | 3 |
| Hotels | 2 |
| Management institute | 1 |
| Business to Business | 14 |
| Consultants | 5 |
| Cargo and Shipping | 3 |
| Security and detective | 3 |
| Others | 3 |

The key financial figures of these companies are also given with their range .It is perhaps unpractical to compare the consumer services with B2B services on the basis of financial indicators. So the most recent figure of mean sale and net profit are given for these sectors.

| | |
|---------------|-------------|
| B2C services | In crore Rs |
| Avg sale | 2798.50 |
| Avg Profit | 375.61 |
| Median sale | 1275.34 |
| Median profit | 83.22 |
| | |
| B2B services | |
| Avg sale | 10.18 |
| Avg Profit | 2.44 |
| Median sale | 4 |
| Median profit | 2.2 |

To describe the respondents profile we have used median also, as medians are less sensitive towards outliers.

We have divided our analysis in two parts. In the first portion we are dealing with the conceptual framework for broad level business strategy of Indian service firms. In the second part we have carried our empirical analysis of functional strategy by using descriptive statistics. Some aspects of business strategy were also exploratory studied.

5.2 Four Broad Strategic Orientations of services firms

The strategic orientatation of the 28 business units were measured on the basis of 19 strategic variables. Many of these 19 variables are obviously correlated. In

order to explain differences in strategic orientations along a smaller set of mutually exclusive dimensions and in order to increase the comprehension and understanding of basic dimensions underlying these 19 variables, a cluster analysis of variables was carried out. Note that the variables within a cluster (within a 'dimension') are highly correlated. That is, if a firm emphasizes one strategic variable in a 'dimension', it is also likely to emphasize the other variables in the 'dimension'. Following is a discussion of the three 'independent strategic dimensions thus obtained.

DIMENSION 1 – Profit Orientation : This cluster includes following strategic orientations:

- A) Focus: targeting maximum effort on a niche market
- B) maximizing profits out of present market
- C) Entering into unexplored market
- D) Competing in competitive markets

These dimensions suggest these companies are profit seeking companies. But as evident from the set of strategies they are following, this aspect of strategy is more concerned with economy of scope, rather than economy of scale. In most of the firms seeking profit, economy of scale would limit them to the cost (or supply) side only. In fact, some studies have questioned the feasibility of economy of scale for services (Carman and Langard, 1980). Emphasis on economies of scale is perhaps possible only in equipment based services like airlines (R.E. Thoms, 1978). With the strategy of putting maximum efforts on a niche market and entering into new markets, volumes are hard to achieve. Making maximum profit out of their market position without building market share is another feature of this aspect. All these features indicate towards economy of scope. In fact, small companies with focus on some area are as profitable as large size cost leader companies (Porter, 1980). The reason cited by him is the clarity in choosing their generic strategy. Companies, without clear strategy become less profitable and termed as stuck in the middle by the Porter. Schwalbach J. 1989 showed in his research that in service markets, small scale business were just as profitable as, or more profitable than larger business unit. So this aspect of strategy can be said a mix of profit seeking practices by focusing on niche market without caring about building market share. The companies following this type of strategy are not averse to entering into unexplored or competitive markets, when

they sense possibility of making profit. Putting efforts on a target niche market comes naturally to them as they do not believe in building market share. In nutshell, Dimension 1, Profit orientation, can be defined as clear and deliberate attempt of maximizing profits by entering into new niche markets, unexplored or competitive, without much emphasis on building market share.

DIMENSION 2 – Differentiation and Diversification: This cluster includes dimensions of

- A) Image: Investing in creating strong organizational image.
- B) Quality: Investing in strict Quality standards to build a market position
- C) Differentiation: Providing services perceived as unique
- D) Range: Offering wide range of choices in the service.
- E) Innovation: Achieving high level of innovation to gain upper hand over competitors
- F) New businesses: Finding new service businesses
- G) Reach: Improving the reach to ever newer customer

This aspect combines seven aspects of growth strategy. This suggests a strategic aspect where firms push for achieving high level of innovation in business in order to enter into service market combination. Hence we have called this as the strategy of diversification. Either because of uncertainty faced in present market areas or because of opportunity perceived in innovations, firm tries to diversify from its present set up. At the same time firm trying to find new businesses, improving the reach to even newer customer and offering wide range of choices in the services. So the strategy can be termed as strategy of diversification. In the services diversification is different from the product diversification, as services do not have the advantage of making large product portfolio based on lifecycle. Services usually have small portfolio. (Carman and Langeard, 1979). Innovation and new service developments are central to this strategy of diversification.

At the same time we can see there are strategies of differentiation and investment in quality and image building. These all aspects points towards building entry barriers, which is logical step to differentiation. Capital is foremost tool to be used as making entry barriers for product firms. But this is not possible with most of the service firms due to their low capital-intensiveness. Thus service firms can

create entry barrier by differentiation, quality or strong brand image (Thomos J, 1978).

So this aspect can be termed as strategy of diversification and differentiation. Where firm wants to diversify from its present situation by new service development, reaching to new customers, and, innovations. At the same tie the firm wants to make distinct entry barriers. All these aspects lead to a distinctive positioning in customer's mind.

DIMENSION 3: Cost leadership: This dimension includes the following variables of strategic orientation:

- A) Cost leadership
- B) Use of proprietary technology
- C) Market share
- D) Channel emphasis

These suggest an aspect where in firms are operating in low cost environment. Cost leadership, to provide the services at the lowest possible cost, is the main feature of this strategy. Econmoy of scale in-services is possible with equipment based services. This points out to other dimension of strategy, building barrier by the proprietary technology. In fact, in equipment based services, proprietary technology is the most common mean to build the barrier (Thomas J, 1978).Building barrier for people-based services by proprietary technology is possible only for professional services that too in some particular cases. The market share and cost leadership go hand in hand. Equipment based services are common in services designed for mass-consumption. So, building a high market share comes naturally. Again making relationship with key channel member is important in this kind of firms. In fact role of intermediaries is significant in equipment based services as well.

This strategy can be summed as seeking cost leadership, relationship with channel members and maximum market share mainly in equipment based services by using proprietary technology as an entry barrier.

DIMENSION 4: Growth through Co-operation: The strategic variables under this dimension are:

- A) Growth through joint venture

- B) Growth through acquisition
- C) Franchising
- D) Outsourcing

These orientations are firstly about growth, whether through acquisition, JV, franchising, or outsourcing.. Though acquisition is an exchange process, the other three mechanisms of growth are essentially of 'co-operative' nature.

5.3 Different types of business units

After finding broad strategic orientation of business strategy of service firms it is desirable to find out the strategic preferences of the business units along with these aspects. Since studying strategic preferences of individual respondent is complex, and, since clusters of respondents can be easily formed without the loss of information, clustering of the 28 business units based on dimensions of business strategy was carried out.

We have first used ward's method to estimate the cluster centers. K-mean clustering was performed afterward to find the orientation of cluster with respect to variable and to define the clusters. Nature of clusters on firms can be explained by studying their attached importance .we got a four cluster solution from K-mean analysis.

| | | |
|---------|---|--------|
| Cluster | 1 | 13.000 |
| | 2 | 3.000 |
| | 3 | 6.000 |
| | 4 | 6.000 |
| Valid | | 28.000 |
| Missing | | .000 |

Table 5.1 Number of Cases in each Cluster

After K – Means Cluster analysis the above table shows that how many cases each cluster is containing. From the above table we observe that cluster 1 is contains 13out of 28 cases. Similarly cluster 2 contains 3, cluster 3 contains 6, and cluster 4 is contains 6 cases out of 28 cases. As here number of cases for analysis is less so it is difficult to make its clusters in an efficient way.

Interpreting and profiling clusters involves examining the final cluster centers. The centers represent the mean values of the objects contained in the cluster on each of the variables. The information obtained about final cluster center was rearranged using normal distribution. Base on distribution, the final center values rearranged as medium, high and low is shown in table below.

| Cluster Variable | I | II | III | IV |
|-----------------------------|----------|-----------|------------|-----------|
| Cost leadership | M | L | M | M |
| Focus | Hi | Hi | M | M |
| Differentiation | M | M | M | M |
| Image | Hi | Hi | M | Hi |
| Quality | Hi | M | M | Hi |
| Technology | M | Hi | L | Hi |
| Innovation | M | M | M | Hi |
| Profit | M | Hi | M | M |
| Market share | Hi | M | M | Hi |
| New business | Hi | Hi | M | M |
| Reach | Hi | M | M | M |
| Range | Hi | Hi | M | M |
| Unexplored | Hi | M | M | M |
| Competitive | Hi | M | M | M |
| Outsourcing | M | L | M | M |
| Channeling | M | M | L | M |
| Acquisition | M | M | L | L |
| Joint venture | M | L | L | L |
| Franchising | M | M | M | M |

Table 5.2 Showing where each cluster is situated in the distribution of firms along each variable (H-High M-Moderate L-low)

5.3.1 Clusters of firm based on business strategy aspects

The table above explains the nature of each cluster of firms in term of strategic preferences. These can be further elaborated as below.

Cluster I- The cluster 1 represents the major chunks of the business firms. So it may be called as representative cluster. Almost 50% of firms are contained in this cluster so it can be said to be a *representative cluster for Indian service sector* showing the set of most popular and widely used strategies. If we note the profile of companies in this cluster, we find almost all consumer services are contained in this cluster. It also contains placement consultants from B2B sector, which are more or less similar in their operation to consumer services. So the strategies preferred by this cluster can be closely related to strategies followed by most of consumer services in India. It can be seen from the table that the firms in this cluster are *high* on their preference for the following strategies.

- A) Focus: targeting maximum effort on a niche market
- B) Quality: Investing in strict Quality standards to build a market position
- C) Entering into unexplored market
- D) To compete in competitive market
- E) Image: Investing in creating strong organizational image.
- G) New businesses: Finding new service businesses
- H) Reach: Improving the reach to ever newer customer
- I) Range: Offering wide range of choices in the service.
- J) Market share

The firms in this cluster show moderate emphasis on all other aspects. If we examine the cluster more closely the strategy of image, reach, range and building market share are highly emphasized. So firms in this cluster can be said to be *growth oriented*. But if we look in terms of generic strategy, the cluster is also high on focus. The consumer services are invariably seeking growth by entering into new markets, new businesses and by creating a strong institutional image but they want to focus on their market segment and consumers. This type of strategy is well documented for consumer services by Davidow and uttal (1989). But at the same time, we have to keep in mind the firms are emphasizing all other aspects,

moderately though. ON THE WHOLE, WE CAN REFER TO THIS CLUSTER OF FIRMS AS “market and strategy savvy”

Cluster-II- The cluster II represents only three companies. All three are knowledge based companies, with institutional customers. It is no surprise they put high emphasis on the strategy of focus, image building proprietary technology and low on cost leadership. The firms put emphasis on following strategies

High:

- A) Focus
- B) Image
- C) Using propriety technology to create entry barriers
- D) Maximizing profits
- E) Range: offering variety of service

Low:

- A) Cost leadership
- B) Joint venture
- C) Outsourcing

The firms in this cluster are knowledge based consultancy firms .Most of these firms has a small base of institutional customers, so they have to focus on creating their niche in market. Building image is important to them .Use of proprietary technology is need to be understood. Proprietary technology comes at very high cost. Incurring such a cost may not be feasible for such companies seeing their size. But still they can make entry barrier by their high technological expertise. The issue is perhaps taken in this spirit by these respondents .They also put low emphasis on cost leadership as the this does not hold any importance for such firms, as has been often shown in literature. Though outsourcing is a prevalent practice in knowledge base firms, but due to our sparse coverage of such firms, we get a contradictory result. These may be referred to as , “technology oriented” firms.

Cluster III- Cluster III represents 6 firms .The firms in this cluster are a mix of B2b and B2c types of services. Cargo companies can be said to be representative of this cluster. There are also 2 consumer services in this cluster. The companies in this cluster are not putting high emphasis on any of the aspects. However, they were putting low emphasis on the following strategies.

Low:

- A) Technology
- B) Joint venture
- C) Channeling
- D) Acquisition

Barring technology all of these are co-operative strategies. These companies are not very technology savvy. And looks a bit old fashioned and change resisting in their thinking. The companies are not emphasizing any aspects of competitive or growth strategy. As they are putting moderate emphasis on all those aspects, they can be best described as *stuck in the middle* (Porter, 1980)

Cluster IV: This cluster contains six companies. Most of them are B2b types of companies dealing with institutional customers. Surprisingly, two insurance companies also found their way into this cluster. These companies were found putting emphasis on following aspects:

High:

- A) Image
- B) Quality
- C) Technology
- D) Innovation
- E) Market share

Low:

- A) Acquisition
- B) Joint venture

From these aspects it is clear that these companies want to compete in the present market and strengthening their position. They are not looking forward for co-operation with other firms though. These are putting high emphasis on Image building, quality standards, Proprietary Technology and innovative ideas to gain upper hand over their competitors. So the companies in this cluster are the one who wants to strengthen their present market positioning. The companies also want to increase their market share. So the companies in the cluster are STRUGGLING TO STRENGTHEN their current position.

5.4 Empirical analysis of marketing variables

5.4.1 Pricing

Hypothesis (H1) on different pricing practices followed by service firms indicate that cost oriented pricing strategy is likely to be followed by most of the service firms. Average responses across all the firms show that the cost oriented pricing strategies are used more than competitor or market oriented pricing strategies. To base prices on what it cost to provide the service is the most popular strategy. The mean value for this strategy is highest (fig).

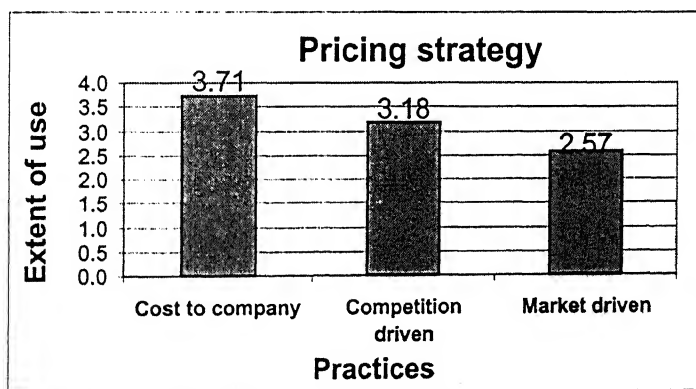


Figure 5.1 Different pricing strategies used by the firms

| | Sum of Squares | Degree of freedom | Mean Square | F | Sig. |
|----------------|----------------|-------------------|-------------|-------|------|
| Between Groups | 12.167 | 2 | 6.083 | 5.909 | .004 |
| Within Groups | 83.393 | 81 | 1.030 | | |
| Total | 95.560 | 83 | | | |

Table 5.3. ANOVA table for significance

The result of one way ANOVA shows that these data are statistically significant.

For checking the statistical significance of data, one way analysis of variance is carried out. From the ANOVA table, the significance of data can be established at the confidence level of 95%. Close examination of table reveals that results are significant at the level of 1%. The hypothesis on pricing practices is strongly supported by the sample.

Although service cost is difficult to calculate (Dearden, 1978), companies are using the practice of estimating cost to be sure of that they are recovered. Other methods, although simpler, may not guarantee of covering the cost.

5.4.1.1 Pricing by B2C and B2B

The hypothesis on pricing was explored separately for the two broad categories of services relevant to our study. It is evident for consumer services there is not much to choose between competitor based pricing and cost oriented pricing. Table shows comparisons of average values for B2C services. The result of one way analysis of variance is also shown in the last column. In case of B2C services, we fail to reject the null hypothesis of equality of means while carrying ANOVA, even at 10% level of significance. Thus, the hypothesis 2.1 is not supported by the data set for consumer services. The consumer service firms are using mix of these pricing strategies, as these firms are working in the dynamic environment of competitive market, which is undergoing changes.

On the other hand, in case of B2B services, a marked difference between average values of extent of use of these practices is visible. The findings are further corroborated by ANOVA. The hypothesis is supported by the data set for B2B services at the significance level of 1%. In B2B services prices are dominantly based on what it costs to provide service. The market for B2B services is not that competitive. So cost based pricing is widely used in B2b services.

The means and the results of ANOVA are summarized in the table. The two independent sample t-tests are shown by asterisk signs in terms of significance level.

and B2c services are significantly different in case of Competition based and market based pricing strategies .As pointed out by Parasuraman, Berry, and, Zeithmal (1985), these average should be consistent with the fact that strategy

| Pricing Strategy | MEANS | |
|--------------------|-----------------------|--------------|
| | B2C Services | B2B services |
| Cost to company | 3.50 | 3.93 |
| Competition based | 3.57 | 2.79** |
| Market based | 3.07 | 2.07*** |
| Significance ANOVA | .524(Non-significant) | .000*** |

Table 5.4 Comparison of means across B2C and B2B services

* Significant at 10% ** Significant at 5% ***Significant at 1%

applies to the firm (respondent checking on 4or 5).For the purpose, we prepared contingency tables of 2x2, columns showing the emphasis an rows showing the type of firms. Chi square statistics were calculated further to establish the association between the variables. Cross tabulations for different strategies are given below.

A) Cost based Pricing

| Cost based Pricing | Extent of use | | Total |
|--------------------|---------------|------|-------|
| | Mod | High | |
| Type of B2B | 4 | 10 | 14 |
| firm B2C | 7 | 7 | 14 |
| Total | 11 | 17 | 28 |

B) Competition based Pricing

| Competition based | Extent of use | | Total |
|-------------------|---------------|------|-------|
| | Mod | High | |
| Firm B2B | 10 | 4 | 14 |
| Type B2C | 6 | 8 | 14 |
| Total | 16 | 12 | 28 |

C) Market based Pricing

| Market based | | Extent of use | | Total |
|--------------|-----|---------------|------|-------|
| | | Mod | High | |
| Firm | B2B | 14 | 0 | 14 |
| Type | B2C | 10 | 4 | 14 |
| Total | | 24 | 4 | 28 |

Table 5.5 Cross Tabulations for different pricing strategies

The chi-square statistics is insignificant for all three cross tabulations. So, there is no association between variables of cross tabulations. The B2B and B2C service can not be distinguished on the basis of extent of use, as suggested by their means for different strategies in table. However, a large percentage of service firms uses cost based strategy. This is consistent with the averages shown in fig. Market based pricing is used rarely or it is seldom used as dominant strategy by the firms.

5.4.2 Advertising Strategy

The first hypothesis on advertisement of services indicated that “non visual media are more popular media of advertisement”. If we look at the descriptive mean of whole sample, it can be seen print media is the most popular media of advertisement. But, when one way analysis of variance is carried out on the sample, it fails to reject null hypothesis of equality of means, even at 10% level of significance. So, the hypothesis is not supported by the sample. Visual media is also as important as non visual media in context of service organization. With the advancement of internet and spreading of cable in last decade, we can not neglect the power of TV advertisement or banner ads on website. In fact, banking services, mutual funds and insurances services are using this media extensively.

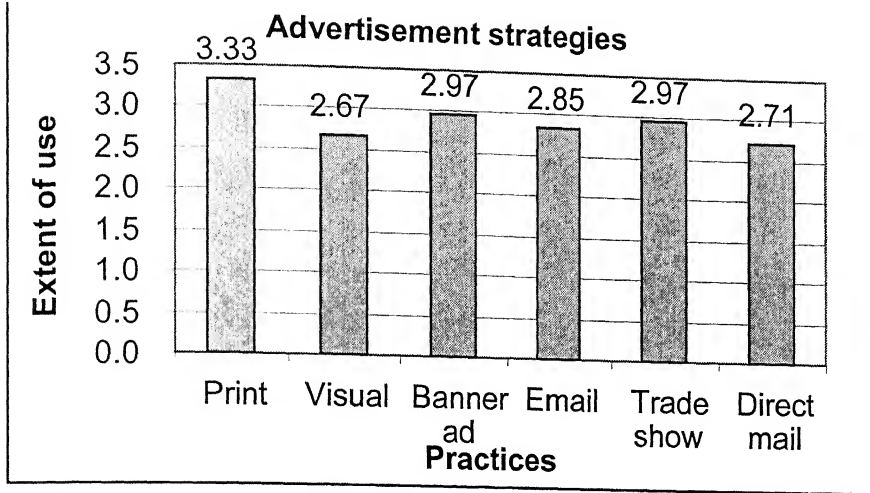


Figure 5.2: Average extent of use of different Advertisement practices

Hypothesis H 3a indicates the difference in the advertisement practices used by consumer and B2B services. It says that extent of use of advertisement is higher in consumer services. The means for different strategies are tabulated in the table .From the table it is evident that the B2B and consumer firms can be strongly differentiated in terms of using banner ads and visual media as advertising practice. The hypothesis indicating higher extent of usage(H3 a) of advertising practices in consumer firms can be supported only in case of visual media and banner ads .The consumer firms use the practice of advertisement by visual media and banner ads more than those of B2b firms.

Hypothesis 3b can be supported partially only. In case of consumer media (print and visual), there is no significant difference between for average usage of print media. So the hypothesis is supported only in case of visual media. The firm with institutional customer use visual media rarely. The high mean pertaining to print media in case of B2B services can only be attributed to our sample. The placement consultants and cargo firms seem to use this mode very often. Although firms in knowledge industry and event management area shown very low preference for this practices. As the latter mentioned firms is pure B2B type.

| Advertising Strategy | MEANS | |
|----------------------|--------------|--------------|
| | B2C Services | B2B services |
| Print | 3.50 | 3.15 |
| Visual | 3.57 | 1.57*** |
| Banner | 3.71 | 2.07*** |
| E-mail | 3 | 2.5 |
| Trade show | 2.7 | 2.9 |
| Direct mail | 2.5 | 2.8 |

Table 5.6 Comparison of means of different advertising strategies for B2C Vs B2Bservices.

* Significant at 10% ** Significant at 5% ***Significant at 1%

As pointed out by Parasuraman, Berry, and, Zeithmal (1985), these averages should be consistent with the fact that strategy applies to the firm (respondent checking on 4 or 5).For checking the consistency we have categorized data into the 2x2 contingency tables.

5.4.2.1 Cross tabulation for different advertisement practices

A) Print Media

| | | Print media | | Total |
|-------|-----|-------------|------|-------|
| | | Mod | High | |
| Type | B2B | 10 | 4 | 14 |
| | B2C | 9 | 5 | 14 |
| Total | | 19 | 9 | 28 |

The chi square statistics is insignificant for this contingency table. Only few service companies use this strategy.

B) Visual media

| | | Visual media | | Total |
|-------|-----|--------------|------|-------|
| | | Mod | High | |
| Type | B2B | 14 | 0 | 14 |
| | B2C | 5 | 9 | 14 |
| Total | | 19 | 9 | 28 |

Significant at 1%

The cross tabulation for this strategy is statistically significant. The consumer services such as banks and insurance are using this strategy extensively. On the other hand no B2B company is using this practice significantly.

C) Banner ads

| | | Banner ads | | Total |
|-------|-----|------------|------|-------|
| | | Mod | High | |
| Type | B2B | 12 | 2 | 14 |
| | B2C | 4 | 10 | 14 |
| Total | | 16 | 12 | 28 |

Significant at 1%

Again same set of consumer services are using this strategy .High end hotels are also using this practice. The rapid growth and advancement in the field of IT have made this strategy one of the most prominent for services with mix consumer base.

D) e-mail

| | | e-mail | | Total |
|-------|-----|--------|------|-------|
| | | Mod | High | |
| Type | B2B | 10 | 4 | 14 |
| | B2C | 10 | 4 | 14 |
| Total | | 20 | 8 | 28 |

Insignificant

The strategy is moderately used by all the service firms. Only some banks and placement consultant are using this strategy.

E) Trade show

| | | Trade show | | Total |
|-------|-----|------------|------|-------|
| | | Mod | High | |
| Type | B2B | 10 | 4 | 14 |
| | B2C | 13 | 1 | 14 |
| Total | | 23 | 5 | 28 |

Insignificant

F) Direct mail

| | | Direct mail | | Total |
|-------|-----|-------------|------|-------|
| | | Mod | High | |
| Type | B2B | 10 | 4 | 14 |
| | B2C | 13 | 1 | 14 |
| Total | | 23 | 5 | 28 |

Insignificant

Table 5.7 Cross tabulation for different advertisement practices.

Both these strategies are rarely used by the service firms.

Another interesting finding in the data set is that use of advertising by service firms is limited. The number of instances when respondents checked for high or very high usage is only 28%. The usage is even weaker in case of B2B services, as can be seen from these tables.

Another important aspect that we came across in the process of data collection is that most of the service companies dealing with institutional buyers rely on word of mouth. This is consistent with our discussion, that percentage of service firms using traditional advertisement practices is very low especially in B2B types of services.

5.4.3 Selling Practices

The hypothesis related to selling practices stated that personal selling is the most popular selling practices for the service firms. The averages pertaining to the data of selling practices show that the personal selling is the widely used strategy for selling the services. It can also be observed that retailing of services is rarely used as a selling practice. The one way analysis of variance carried out on the data

set, rejected the null hypothesis of equality of means at the 1% level of significance. Thus the hypothesis is strongly supported.

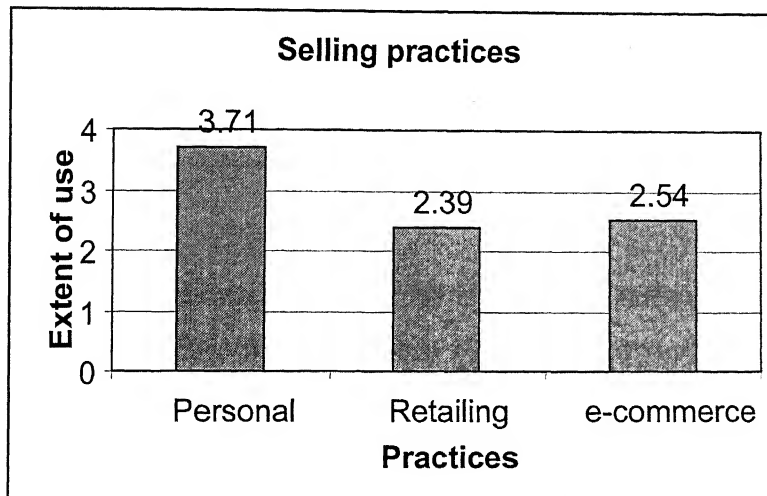


Figure 5.3 Different strategies for selling practices

For checking the consistency of averages with the extent of use , cross tabulation of data have been carried out. The response from sample was arranged in 2x2 contingency tables.

5.4.3.1 Cross tabulations of selling practices

A) Personal selling

| | | Personal selling | | Total |
|-------|-----|------------------|------|-------|
| | | Mod | HIGH | |
| Type | B2B | 3 | 11 | 14 |
| | B2C | 7 | 7 | 14 |
| Total | | 10 | 18 | 28 |

Insignificant

The association between variables of contingency table can not be explained as the chi square statistics is not significant. But it can be seen from the table all the service companies uses this practice of personal selling. A high percentage of respondents are actually using this practice which is consistent with the averages shown in figure 5.3.

B) Retailing

| | | Retailing | | Total |
|-------|-----|-----------|------|-------|
| | | Mod | High | |
| Type | B2B | 12 | 2 | 14 |
| | B2C | 9 | 5 | 14 |
| Total | | 21 | 7 | 28 |

Insignificant

Again the relationship shown in table is statistically insignificant. But, service firms are not using practice of retailing can be established from the table. The finding is consistent with the mean values and our hypothesis for selling practices (H 4)

C) e-commerce

| | | e-commerce | | Total |
|-------|-----|------------|------|-------|
| | | Mod | High | |
| Type | B2B | 11 | 3 | 14 |
| | B2C | 10 | 4 | 14 |
| Total | | 21 | 7 | 28 |

Insignificant

Table 5.8 Cross tabulations of selling practices

It can be easily established from the table that a low percentage of firms are actually using the e-commerce for selling. Contrary to general perception, b2c sectors some banking firms distanced themselves from using e-commerce for selling. The result can be attributed to sparse access of networking facilities. Other reasons may be people's reluctance or hesitance to adopt technological changes. This can be further explored to establish some definitive findings.

5.4.4 Service promotions

The hypothesis for service promotion indicated that price discount is the most popular method for service promotion. The mean values obtained from the sample set have been plotted in figure. The mean values favors the practice of promotion of services by adding supplementary services. The one way analysis of

variance on the sample shows that the differences in means are statistically insignificant. So the hypothesis is not supported by the data set.

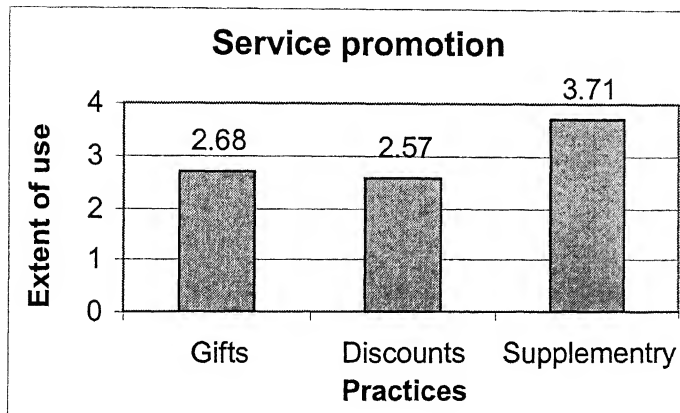


Figure 5.4 different strategies for service promotion

The cross tabulations of the data for these statistics have been done .Again; it is done to check the consistency of mean values with the usage of strategy. The result of cross tabulations is summarized in 2x2 contingency tables.

5.4.4.1 Cross tabulations of promotion practices

A) Gifts

| | | Gifts | | Total |
|-------|-----|-------|------|-------|
| | | Mod | High | |
| Type | B2B | 10 | 4 | 14 |
| | B2C | 10 | 4 | 14 |
| Total | | 20 | 8 | 28 |

Insignificant

The association between variables of contingency table can not be explained as the fisher's exact test statistics is not significant. But it can be seen from the table all the service companies rarely use this practice of promotion by adding some tangible elements like gifts . A high percentage of respondents are akin to use this practice, a finding consistent with the mean values.

B) Price discounts

| | | Discounts | | Total |
|-------|-----|-----------|------|-------|
| | | 1.00 | 2.00 | |
| Type | B2B | 11 | 3 | 14 |
| | B2C | 7 | 7 | 14 |
| Total | | 18 | 10 | 28 |

Insignificant

The relationship shown in table is statistically insignificant. The fact, service firms are using practice of retailing sparsely can be established from the table. The finding is consistent with the mean values and our propositions for selling practices (H 4)

C) Supplementary services

| | | Supplementary | | Total |
|-------|-----|---------------|------|-------|
| | | 1.00 | 2.00 | |
| Type | B2B | 13 | 1 | 14 |
| | B2C | 7 | 7 | 14 |
| Total | | 20 | 8 | 28 |

Significant

Table 5.9 Cross tabulations of promotion practices.

Promotion of services by adding supplementary services is not widely practiced by service firms. As the relationship shown in the table is statistically meaningful, we can conclude that consumer services are using this practice more than b2b service firms. Overall, a high percentage of service firms are distancing themselves from using these practices. Use of this practice is negligible in case of business to business services.

5.4.5 Customer loyalty

To check the hypothesis H6 we have plotted a line plot. It is visible from the line plot that most of the companies put high importance on building customer loyalty. The result of the plot is tabulated in a 2x2 contingency table.

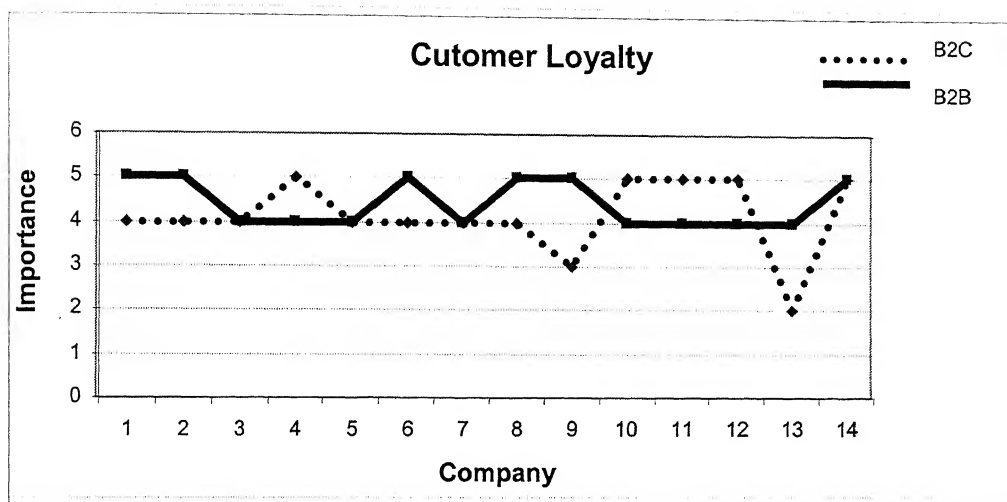


Figure 5.5 A line chart showing emphasis on customer loyalty by B2B and B2C services

Cross tabulations

| | | Loyalty | | Total |
|-------|-----|---------|------|-------|
| | | Mod | High | |
| Type | B2B | 0 | 14 | 14 |
| | B2C | 2 | 12 | 14 |
| Total | | 2 | 26 | 28 |

Insignificant

Table 5.10 Cross tabulations for customer loyalty

A very high emphasis is put on building loyal customer base by all the service firms. As the relationship shown in the table is statistically insignificant, but it can be concluded that all the B2B services are thriving by maintaining a loyal customer base (Cooper and Jackson, 1981). Overall, a very high percentage of service firms are putting very high emphasis on building loyal customer base. Thus, our hypothesis H6 indicating high emphasis put by service firms over building high customer loyalty is well supported by the data.

5.4.6 Moving towards 24x7 services

A line chart has been drawn for two broad categories of services showing importance put by firms on moving towards 24X7 type of services .The result of line chart is tabulated on the basis of their actual use.

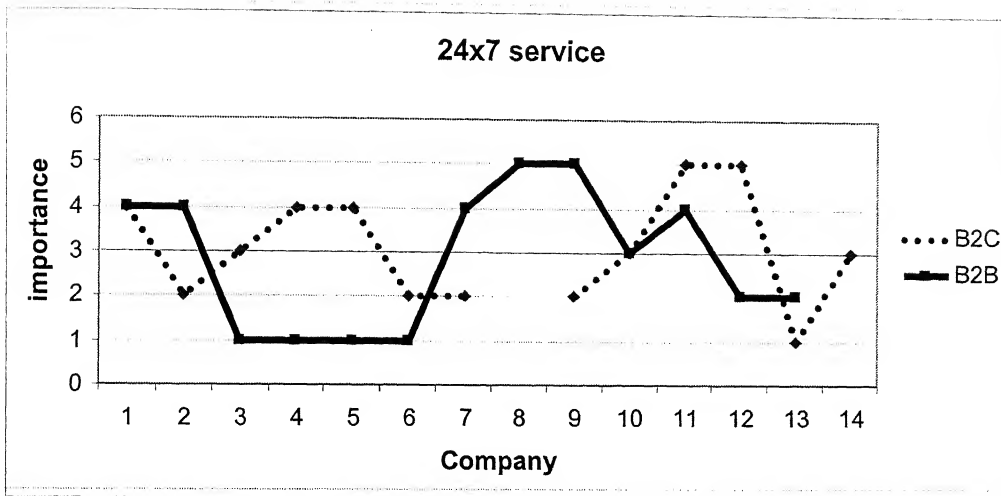


Figure 5.6 A line chart showing emphasis on customer loyalty by B2B and B2C services in 24x7 services

Cross tabulations:

| | | 24X7 services | | Total |
|-------|-----|---------------|------|-------|
| | | Mod | High | |
| Type | B2B | 8 | 6 | 14 |
| | B2C | 9 | 5 | 14 |
| Total | | 17 | 11 | 28 |

Insignificant

Table 5.11 Cross tabulations for 24x7 services

The relationship shown in table is statistically insignificant. The service firms are using practice of retailing sparsely. The banking firms are moving towards embracing 24x7 types of services. In b2b firms, it is desirable feature for their operation. Web bases firms are also fall in this category.

Chapter-6

Conclusion

In this chapter a summary of the results and the implications derived are discussed.

Strategic Aspects

We have identified four “groups”, that is, four strategic aspects of service strategy, based on the data. These are:

Profit Orientation

Differentiation and Diversification

Cost leadership

Growth through co-operation

Each group refers to a set of closely related strategic elements. For instance, ‘differentiation & diversification’ comprises of elements such as image, quality, differentiation, range, innovation and improving reach. Elements in each group are substantially correlated with other elements within the group, and mostly ‘uncorrelated’ with elements in other groups. These four aspects give us a parsimonious way to look at service strategy.

Business strategy is Multidimensional

Another basic question that we have addressed in this study is regarding finding families or groups of firms based on their strategic preferences. These preferences of a business unit are likely to have varying interests on various aspects of business strategy. We have proposed a method of characterizing firms on a vector of values of emphasis attached by it across the above four strategic aspects. Similarly we have listed the aspects of business strategy rather than disparate typology of strategies.

Strategies in Indian firms

Service firms are very much diverse in nature. Strategic issues may be different or nonexistent depending upon various factors like economic size, nature of particular service or service sector. So the conclusions derived here may not be applicable for service industry as a whole. Still, our analysis on different type of business units gives significant insights. One representative cluster of Indian service firms look to be growth oriented. At the same time, they also want to focus on their market segment and customer base. This representative sector of Indian services named as “Market and strategy Savvy”. The strategies of knowledge based firms also looks to be well defined and technology oriented. And there was a sector, who is seems to be languishing in terms of strategy. Without any dominant strategy they are aptly named as “stuck in the middle”. Surprisingly, some firms in insurance sectors were found to be struggling to strengthen. If we look sector wise, Banking sector as a whole found to be growth oriented and with sound basics of strategies. Knowledge based firms also have well defined goals. Some B2b firms have their clear strategic orientation, but still they need to assert themselves more positively for strengthening their position.

Marketing Strategies

A number of issues in service marketing were studied empirically. Some of hypothesis pertaining to pricing and advertising found support confirming previous studies and prevalent practice. In most cases the differences between B2c and B2b sector were visible. Most B2b firms use cost base pricing but in case of B2c, no strategy was found dominating. While most of B2b firms stressed on word of mouth advertising, they were not very sure how to use the practice strategically. Personal selling was found the most popular selling practice. The use of e-commerce for selling is limited in India due to low penetration of internet. It was also an indication from the sample size, that firms are distancing themselves from price discounts for service promotion. And almost all the companies are looking for building loyal customer base.

Limitations and scope

The foremost limitation of our study was small sample size. Although, it is not uncommon in strategic analysis, generalizations of results is not possible

.However, our study gives a sketch of service industries in India and provides a framework to build a comprehensive model of Indian service sector. For carrying out empirical analysis we have limited ourselves to only on broad categories of services; consumer and business to business. A further attempt can be made in the direction by aiming on firms in different geographic reasons, nature of service act or economic position. Some of the issues discussed here may warrants separate and more elaborate attention. Due to respondents profile we were not able to carry out detail analysis of operation related issues. However, these issues are critical and need separate attention. The biggest problem we felt in designing the questionnaire was diverse nature of services. The target service sectors should be decided in no uncertain manner and a large scale survey is strongly advised.

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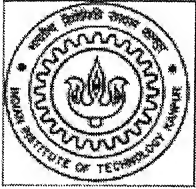
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THE SERVICE STRATEGY SURVEY 2005

INDIAN INSTITUTE OF TECHNOLOGY KANPUR,

From,
Dr. Arun P Sinha
Professor of Management
IIT Kanpur ,208016

Dear Sir,
We are conducting a national survey of service strategy in India. My student Mr. Rajat Mahajan has designed a questionnaire which helps you self assess the service strategy in your business. This questionnaire is enclosed.

This survey first of its kind in India ,is aimed at compiling,and comparing the most critical and strategic aspects of service businesses.since key items in the surveyare strategic we solicit responses from ***the chief executive/ top management***. Responses from a level lower than this (while by itself would be merit worthy) would serve to detract from the eventual the objective of the survey. Hence I earnestly request the chief executive/ top management to help us in our effort by finding time to respond to this survey.

We shall be more than happy to send you our findings from this survey relating to the strategies in Indian Service sector. We plan to begin analysis of all responses by the first week of April, 2005. I shall therefore be grateful if we could have your responses in time to begin our analysis.

I assure you that all information will be treated in strict confidence and the data will be analyzed in a manner that ensures the same. Please feel free to mail asinha@iitk.ac.in or rmahajan@iitk.ac.in for any clarification whatsoever you may need.

Looking forward to your cooperation.
Best regards,

Your sincerely,

(Dr. Arun P Sinha)

THE SERVICE STRATEGY SURVEY 2005

SECTION-1

This section aims at your own evaluation of your firm's *Business Strategy*. The items included in this section give you various choices which may describe the strategic direction taken by your Business. The emphasis you place on each of following determines the profile of your business strategy. Please show the *degree of emphasis* you attach to each by marking on scales provided. (To help in deciding whether your firm's degree of emphasis is Very low/...../Very high, please visualize your firm against the background of other firms.)

| This company lays emphasis on | Degree of emphasis | | | | |
|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | Very low | Low | Moderate | High | Very high |
| Trying to provide services at the <i>lowest</i> possible cost of entire industry | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Targeting maximum efforts on a <i>niche</i> market | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Offering services that are perceived as <i>unique</i> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| <i>Investing</i> in creating strong organizational image | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Investing in strict quality standards to build a distinct market position | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Investment in proprietary technology for creating distinct <i>entry barriers</i> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Achieving high level of <i>innovations</i> to gain upper hand over competitors | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Maximizing profits out of the present market position with relatively less interest in <i>market share</i> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Capturing maximum share of the existing market | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Finding <i>new</i> service businesses | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Improving the reach of existing service businesses to newer customers | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Offering wide range of choices in the service | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Entering into <i>unexplored</i> markets | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Entering in competitive markets | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |

| | | | | | | | | | |
|------------------|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| 4 | Promotion of services through <i>introductory offers/bundling schemes/Discounts</i> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 5 | Promoting through <i>supplementary</i> services e.g. free home delivery | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 6 | Intensive <i>personal</i> counseling/selling of services | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 7 | <i>Retail</i> selling/promotion through outside parties | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 8 | Use of <i>e-commerce</i> for selling | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 9 | Automation of service delivery process | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 10 | Use of phone based transactions | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 11 | Use of self service by customer | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 22 | Moving towards 24x7 service | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 23 | <i>Strategic</i> location of service points | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| SECTION-3 | | | | | | | | | |

In the following section we deal with aspects of service Operations and its Design. This section has been divided into subsections.

(A) The items included in this section focus on the design of your service operation. You are requested to please indicate on the scale provided, the extent of use of following practices in the context of your business.

| | Aspects of Service Operations | Extent Of Use | | | | |
|---|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | | Never | Rarely | Sometimes | Mostly | Always |
| 1 | Our service processes are mostly <i>low</i> customer contact operations | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 2 | Customer does <i>NOT</i> actively participate in the service process | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 3 | Service in our business is provided in a <i>controlled environment</i> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 4 | In this business, the personnel exercise substantial discretion in their actions | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 5 | There is a <i>standardization</i> of service using <i>mechanized</i> work system as in ATM | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 6 | There is a <i>standardization</i> of service by using organized preplanned systems as in <i>supermarket</i> or <i>cafeteria</i> that enables people to serve themselves <i>quickly</i> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 7 | The total service job can be easily broken down into groups of tasks needing | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |

| | | | | | | | | | |
|---|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|--|--|--|
| specialized skills | | | | | | | | | |
| (B) Managing fluctuations in Demand | | | | | | | | | |
| This section contains practices /strategies used for managing <i>fluctuations in demand</i> . Kindly mention, on the scale provided, the extent to which you are using following practices for managing fluctuations in demand. | | | | | | | | | |
| Practices/Methods to manage fluctuations in demand | | Extent of use | | | | | | | |
| | | Never | Rarely | Sometimes | Mostly | Always | | | |
| 1 | Hire extra <i>part time</i> employees | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | |
| 2 | Have employees work <i>overtime</i> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | |
| 3 | Cross <i>functional</i> use of employees to perform other tasks | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | |
| 4 | <i>Lay-off</i> the employees | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | |
| 5 | Seek <i>subcontract</i> work during <i>lean</i> demand period | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | |
| 6 | <i>Outsourcing</i> during <i>excess</i> demand period | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | |
| 7 | Use of advance booking | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | |
| 8 | Taking care of <i>regular</i> customers and allowing others to wait | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | |
| 9 | Try to keep waiting customer comfortable | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | |
| 10 | Increase the number of server points | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | |
| 11 | <i>Reengineer</i> the process | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | |
| 12 | Market <i>alternative products</i> during <i>lean</i> time | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | |
| 13 | Increase advertising | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | |
| 14 | Yield management i.e. use of <i>price variation</i> to maximize the revenue | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | |
| 15 | Designing <i>flexible</i> physical facilities | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | |
| 16 | Any Other Please specify _____ | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | |

SECTION-4

The section contains strategies/practices related to *Human resource/work force management*. Some of them may be interrelated. The *emphasis* you place on these practices will show your firm's human resource strategy. Kindly mention, on the scale, the extent to which you are following or have firm plans to use following strategies.

| Practices related to Human resource management | | Extent of use | | | |
|--|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | | Never | Rarely | Sometimes | Mostly Always |
| 1 | Hiring <i>untrained</i> employees and providing extensive training to them | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 2 | Hiring <i>experienced</i> employees | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 3 | Planning for manpower with expectation of <i>high turnover</i> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 4 | Seeking <i>long term relationship</i> with employees | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 5 | Facilitate <i>cross functional training</i> of employees | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 6 | Hire <i>temporary</i> workers for less important jobs | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 7 | Using a <i>separate</i> selection and training procedure for <i>public contact personnel</i> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 8 | <i>Emotional</i> training of employees for <i>customer handling</i> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 9 | Use of <i>top down</i> control of management | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 10 | Grant trust and <i>self-direction</i> to employees | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 11 | The <i>reward</i> system for managers is linked with <i>strategic performance</i> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 12 | Offering <i>financial incentives</i> for motivation of workers | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 13 | <i>Job security</i> as a motivational tool | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 14 | Use of <i>profit sharing</i> as a motivational tool | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| 15 | Offering fringe benefits for motivational purpose | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |

| | | | | | | | | |
|----|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| 16 | Motivation of work force by improvements in <i>physical conditions of work place</i> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 17 | Use of <i>MIS</i> for tracking the implementation of strategy | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 18 | Use an <i>expert system</i> for employee guidance in technology based job | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

GENERAL INFORMATION ABOUT BUSINESS UNIT

Name of this business unit :

Total no of employees: _____

Managerial: _____

Staff: _____

Others: _____

Please mention the services offered by this business unit :Nature of services offered

1.

2.

3.

4.

Brief statement and Mission of business:

Location of head office: _____

No of regional offices: _____

Total no of branches: _____

Please give the most recent figure (Very approximately) of following performance measures :

Sales for this business unit: _____

Net profit for this business unit: _____

Sales for the company: _____

Net profit for the company: _____

Name of the respondent (optional): _____

Designation of the respondent (optional): _____

Please mail filled questionnaire to either of following address:

Dr. Arun P. Sinha
Prof. Industrial & Management
Engg.

Rajat Mahajan
MTech IME
B-315/ Hall 4
IIT Kanpur